

Modest prospects in the short term

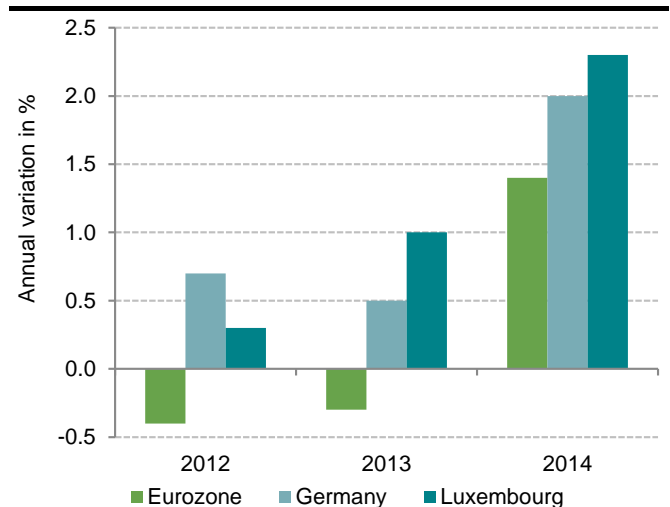
After recording almost zero growth in 2012 (up 0.3%), the Luxembourg economy is expected to see a modest and very gradual recovery, with GDP growth set to rise to 1.0% in 2013 and 2.3% in 2014.

A resolution of the financial crisis "with no major upsets" would allow the Luxembourg economy to recover gradually.

STATEC's forecasts were drawn up on the basis of a 0.3% fall in GDP in the eurozone in 2013, followed by a rise of 1.4% in 2014. In 2015 and 2016, activity in the eurozone is expected to grow at just under 2%. This trend assumes a resolution to the financial crisis with no major upsets. This scenario will allow the Luxembourg economy to avoid recession in 2013 (PIB in vol. up 1.0%), with growth of slightly over 2% in 2014 and, in the medium term (2015-2016), close to 3.5%. Potential growth or the growth trend will not rise above the current rate, namely some 1.5%. The 3.5% medium-term growth figure should not therefore be perceived as a return to historical trends but rather as a resolution of the financial crisis with no major upsets, with the financial sector expected to see growth again from 2015 on. Against this backdrop, it is important to point out that recent statements regarding the definitive abandonment of banking secrecy have not been incorporated in STATEC's basic scenario – this will take place at a later date.

Market fluctuations have a delayed impact on the labour market. The low point in terms of domestic employment growth will thus be reached in 2014 (up 1.3%) and unemployment will start to fall from 2015 on. The drop in unemployment should of course be seen in the context of the gradual recovery in activity, but it also depends on a number of factors such as a stabilising activity rate and the proportion of cross-border workers in domestic employment or a gradual fall in net migration rates. Nonetheless, unemployment will remain high in 2016, at almost 6.5% of the working population, 8.5% if those on job schemes are taken into account. Assuming that oil prices will remain stable and that the economic climate will remain lacklustre overall, inflation will fall to 1.7% over the short term in 2013, thereafter rising gradually towards 2%. The sliding wage scale, on the other hand, is set to rise 2.5% in 2013 and 2014 (with the triggering of index-linked pay rises in October 2013 and 2014). Real wages have fallen about 1% on average per year since 2011. This state of affairs, unseen since 1970, is just another facet of the crisis. Thus, in 2013, the rise in wage costs per capita is, at 1.5%, expected to remain below that of the NCPI and the sliding scale. Real wages will only start to rise again in 2014, albeit at a significantly lower rate than in the past.

Forecasts: GDP in vol.



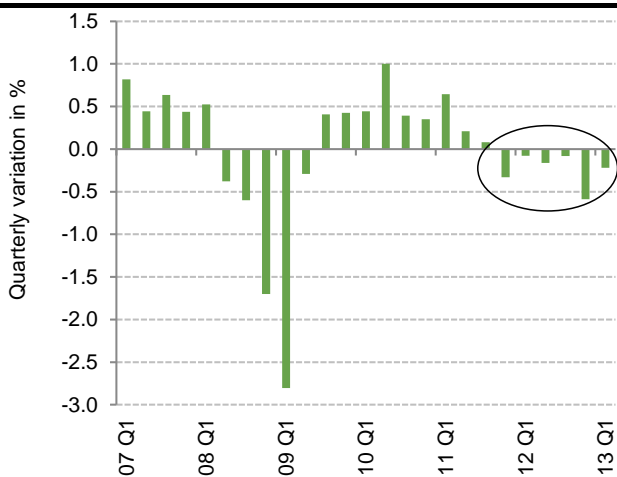
Sources: STATEC, European Commission

Public finances will remain in deficit.

STATEC's forecasts are based on assumptions that public spending policy will remain unchanged. The share of public spending is set to grow from 43.0% of GDP in 2012 to 44.4% in 2015. Fiscal policy will therefore be expansionary, i.e. it will give the economy a boost. STATEC's scenario for public finances differs notably from that of the Stability programme, which anticipates a number of measures intended to restore the balance of public finances ("unchanged policy scenario"). STATEC will incorporate these measures in its main scenario once they have been clarified further. Excluding policy changes, the balance of public finances will deteriorate over the entire forecasting period: -0.7% in 2013 to -2.4% in 2016, partly due to the loss of VAT receipts from e-commerce from 2015. As this deterioration will require corrective measures (due to the new European budgetary monitoring framework), the Government's Stability programme proposes to include discretionary measures (including a VAT hike). According to this strategy, unless there are policy changes, the balance of public finances will reach -1.3% in 2015 and 2016. In all cases (STATEC's unchanged policy scenario or Stability programme's changed policy scenario), the structural balance, which cancels out the impact of cyclical factors on the nominal value balance, will not meet the targets set by the regulatory European framework in the medium term, namely a structural surplus of 0.5%.

International

Eurozone – GDP in vol.



Source: Eurostat

Eurozone: lingering recession

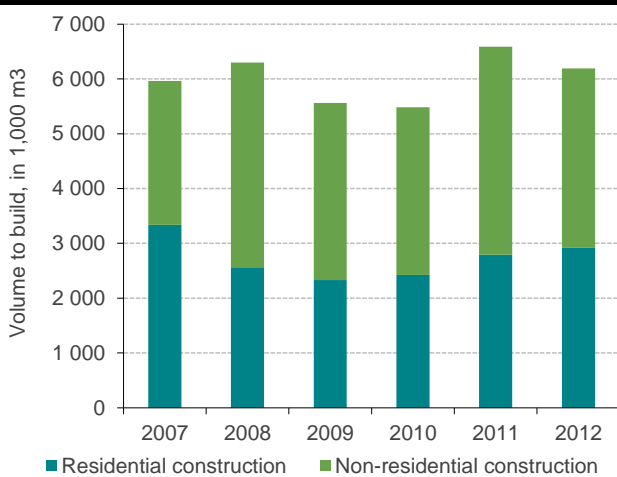
According to the quick estimate published by Eurostat, GDP in the eurozone fell 0.2% in the 1st quarter of 2013, prolonging the recession which started in late 2011.

Results by country (partially available) show less of a decline in general in the 1st quarter, particularly in southern Europe (Portugal, Italy and Spain). Germany posted a rise – the only country to do so, along with Slovakia – but this appears to have been fairly modest, growing 0.1% (the 4th-quarter figure was moreover revised downward, from -0.6 to -0.7%). The underlying trend for Germany, which is the driver of the eurozone, is undeniably moving towards increasingly moderate growth and stagnating activity.

The prospects for the 2nd quarter are also unfavourable, with leading indicators for the eurozone up to April indicating a downturn in activity (similar in scale to that seen in the 1st quarter of 2013).

Construction

Planning permissions



Source: STATEC

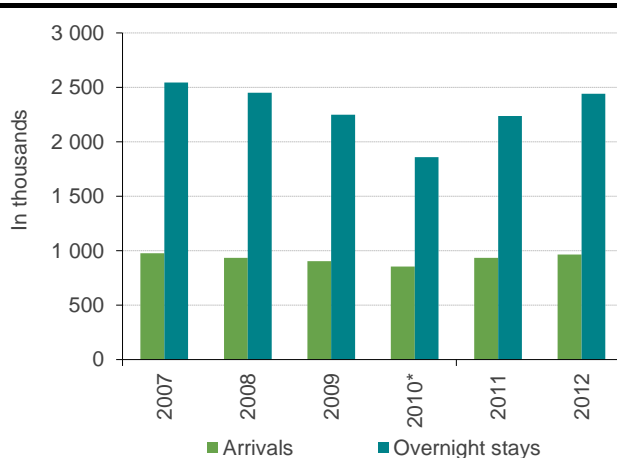
Residential sector props up construction

The Luxembourg construction sector is going through difficult times. Output fell sharply in early 2013 (down 13% over one year over the first 2 months), due to particularly badly difficult winter conditions but also to economic difficulties. This, at least, is the sentiment emerging from opinion surveys of construction businesses, whose assessments are tinged with pessimism (up to April).

The volume of planning authorisations dropped over 2012 as a whole (down 6% on 2011), mainly in the non-residential sector. Residential projects seem to be holding up better and this cyclical upswing in the residential sector is also reflected in property prices. Sale prices for apartments rose some 5% over last year.

Tourism

Tourist number indicators



* Underestimate due to the change in the data-collection method

Source: STATEC

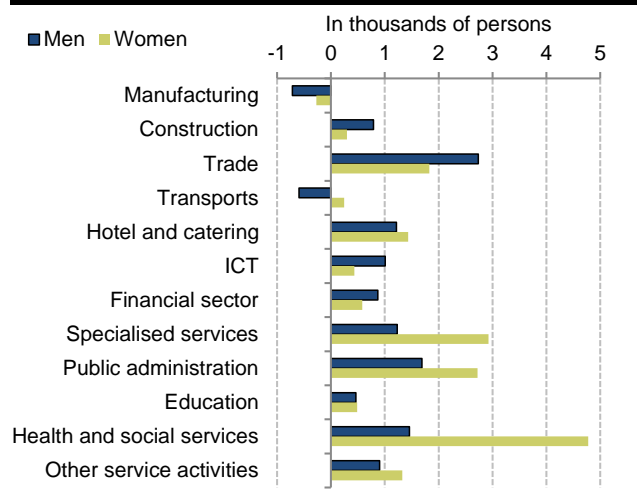
Overnight stays up substantially

2012 was marked by a significant rise in tourist numbers – in both arrivals (up 3% approximately) and above all overnight stays (up 9%). It is true that the rises were higher in 2011, but this was largely due to statistical effects (linked to the introduction of the electronic collection of accommodation returns, resulting in a reduction in the 2010 results).

Of the approximately 200,000 additional overnight stays recorded in 2012, half were from neighbouring or nearby countries: Germany, Belgium and the Netherlands (which all rose almost 9%). For France on the other hand, the rise was almost 3%. The domestic component played a significant part in 2012: up 25%, overnight stays for Luxembourg residents accounted for one fifth of the total increase. Finally, there was a surge in overnight stays by Chinese tourists (up 44%), contributing a massive 7% to the overall rise.

Labour market (1)

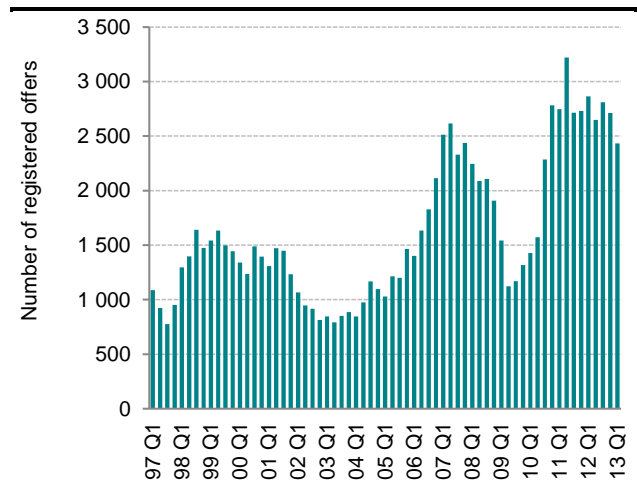
Jobs created by gender and sector between 2008 and 2012



Sources: IGSS, STATEC

Labour market (2)

Job offers notified to ADEM



Sources: ADEM, STATEC (seasonally adjusted figures)

Huge momentum in female employment

Since the crisis, women have taken more newly created jobs than men (59% of net jobs created in 2012). This trend is partly explained by the fact that sectors dominated by men, construction (92% men), transport (86%) and manufacturing (83%), have been much harder hit by the economic crisis while sectors dominated by women, particularly human health and social welfare (77% of women), were less exposed to the international economic crisis and therefore continued to create jobs.

The surge in female employment in part explains why employment in Luxembourg is withstanding the current crisis, with the Grand Duchy continuing to create jobs in late 2012 whereas almost all other eurozone countries (except for Austria and Germany) have had to deal with more or less massive reductions in employment. The dynamic of female employment is totally different to male employment because women are much more likely to work part-time (30% in 2012 compared to just 7% of men), thus automatically increasing the number of people at work.

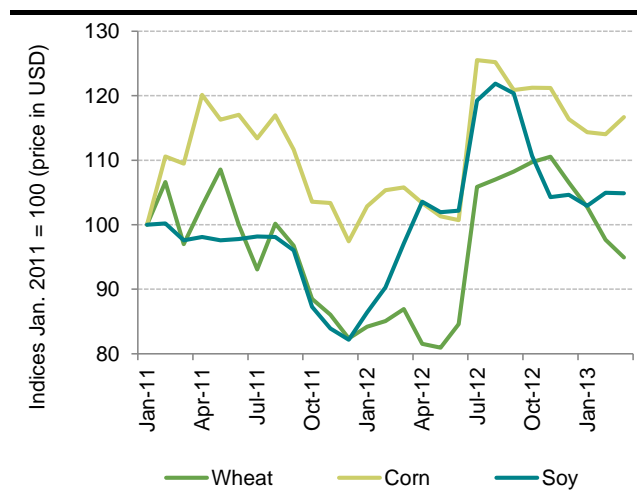
The number of vacancies remains high

The number of vacancies notified to the ADEM stabilised at a little over 2,600 in 2012 (seasonally adjusted figures). The first quarter of 2013, however, shows a slight dip, with vacancies falling below 2,500 units. Thus, given the ongoing rise in the number of job seekers, the number of people unemployed per vacancy has also risen in recent quarters, settling at 7 job seekers per vacancy in early 2013, compared to just 4 in early 2011.

In Q4 2012, most job offers came from Professional, scientific and technical activities (18%), Trade (17%) and Financial and insurance services (12%). Job seekers who lost their job in construction or administration normally have more difficulty finding a job, as these sectors have the highest number of job seekers per vacancy (14 and 9 job seekers per vacancy respectively). Job seekers from the education or more qualified services sectors (scientific, technical and financial) on the other hand have much less competition (about 1 job seeker per job offer).

Inflation

Agricultural commodity prices



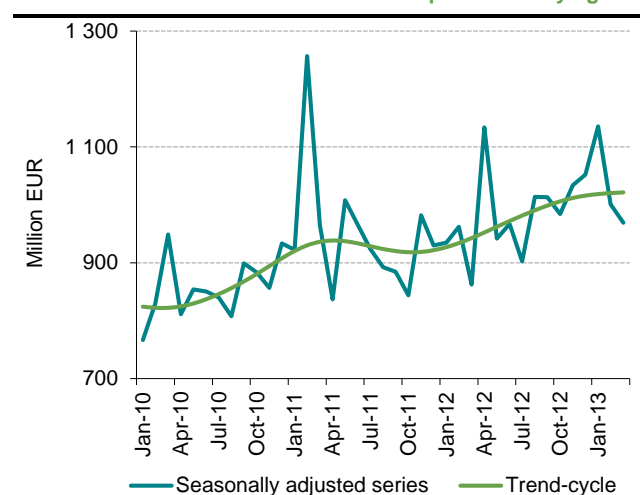
Source: IMF (Primary commodities prices)

Food more expensive

Food prices rose 3.8% over one year in the first 4 months of 2013, much higher than general inflation (2.0% over the same period), accounting for about one fifth of the rise in general inflation. These food price tensions are also affecting other eurozone countries, although the trend is more pronounced in Luxembourg. The price rises observed nationally are significant for a number of product categories: meat (up 4.2%), fish (up 5.0%), fruit (up 6.6%) and vegetables (up 6.7%). In terms of contributors to inflation, the most noteworthy rises were in meat, bread and cereal, and vegetables. For the first two categories, the rise is due, with a time lag, to the sharp hike in the price of cereals such as wheat, corn and soya in mid-2012. This hike fell back somewhat subsequently, which could push down food price inflation towards the end of 2013. The rising inflation rate for vegetables is partly due to the sharp rise in prices for potatoes and fresh vegetables.

Public finances

Tax receipts – monthly figures



Sources: Tax authorities, STATEC

Public receipts grow strongly in early 2013: a temporary phenomenon

Public receipts rose strongly in early 2013, rising some 12% over one year over the first three months (up EUR 342 million). The rise was mainly due to an increase of EUR 139 million in VAT receipts (up 18% over one year), a rise of EUR 91 million in corporate income tax (up 23%) and a rise in income tax (up 6% to EUR 64 million).

This strong increase in receipts compared to last year is, however, closely linked to the fact that receipts were particularly low in early 2012, because of exceptional phenomena (particularly as regards VAT receipts). These highly favourable trends in early 2013 are therefore expected to dim considerably as the year progresses.

Trend chart

	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	Average over the last three months	Same period previous year
Annual variations in %, except where otherwise indicated											
Activity											
Industrial output per working day, in volume	-9.9	-2.1	-4.5	-5.3	3.5	-5.4	-6.8	...	...	-3.1	-9.5
Construction output per working day, in volume	6.1	-4.5	0.1	-9.9	2.2	-23.7	-1.8	...	...	-8.6	-5.3
Turnover by volume of total retail trade	3.7	-0.5	1.4	0.1	-2.2	1.0	...	...	...	-0.5	1.7
Prices, wages											
Consumer price index (NCPI)	2.6	2.9	2.9	2.5	2.3	2.1	2.3	2.0	1.7	2.0	2.8
Underlying inflation	2.0	2.2	2.2	2.2	2.2	2.1	2.3	2.2	2.3	2.3	2.2
Oil product index	8.8	11.6	10.8	5.4	3.9	1.9	2.5	-0.6	-3.9	-0.7	10.0
Industrial producer price index	0.8	0.6	-0.2	0.4	-0.6	-0.9	-1.2	-1.3	...	-1.1	2.8
Construction price index ¹	2.9	2.9	2.7	2.7	2.7	2.5	2.5	2.5	...	2.5	3.2
Average wage bill, per person (National accounts)	0.4	0.4	1.8	1.8	1.8	...	...	...	...	1.8	1.8
Foreign trade											
Exports of goods (volume)	-8.7	-12.6	2.5	-5.5	-18.0	-6.6	-10.0	...	...	-11.5	-5.0
Imports of goods (volume)	-27.9	5.7	-9.7	17.6	-5.4	3.6	-14.4	...	...	-5.6	-3.5
Employment, unemployment											
Domestic number of employees	2.3	2.1	2.3	2.0	2.3	1.7	1.8	1.8	...	1.8	4.6
National employment	2.4	2.1	2.4	2.1	2.3	1.6	1.6	1.6	...	1.6	2.6
Unemployment rate (% of working population, seas. adj.)	6.1	6.1	6.2	6.3	6.4	6.4	6.5	6.6	...	6.5	5.9

Source: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Eurozone- Growth in volume of GDP (European Commission)	-0.3	-0.1	-0.2	-0.1	-0.6	-0.2
Luxembourg - Growth in volume of GDP (STATEC)	-0.5	0.0	0.5	-0.5	1.6	...
	Annual variation in %					
	2008	2009	2010	2011	2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC)	-0.7	-4.1	2.9	1.7	0.3	1.0
PIB en valeur 2012: 44 426 Mio EUR						
Minimum monthly salary (since 01/10/2013): EUR 1 874.19	Consumer price index (April) - base January 1 st 1948: 819.93					
Current account balance (2012 Q4): EUR 1 175 million	Half-yearly average of the index linked to base as at January 1 st 1948: 814.38					
Resident population (01/01/2012): 524 853	Estimated deadline for next salary indexation: 4 th term 2013					

National Institute of statistics and economic data

Tel: 247-84219

info@statec.etat.lu

www.statistiques.lu

13, rue Erasme

B.P. 304

L-2013 Luxembourg

For further information:

Bastien Larue

Tel. 247-84339

E-mail: Bastien.Larue@statec.etat.lu

Pascale Armstrong

Tel. 247-84234

E-mail: Pascale.Armstrong-Pax@statec.etat.lu